

Report of the auditor-general to the KwaZulu-Natal Provincial Legislature and the council on uMngeni Municipality

Report on the audit of the financial statements

Qualified opinion

1. I have audited the financial statements of the uMngeni Municipality set out on pages ... to ..., which comprise the statement of financial position as at 30 June 2019, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget and actual amounts for the year then ended, as well as the notes to the annual financial statements, including a summary of significant accounting policies.
2. In my opinion, except for the possible effects of the matters described in the basis for qualified opinion section of this auditor's report, the financial statements present fairly, in all material respects, the financial position of the uMngeni Municipality as at 30 June 2019, and its financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2018 (Act No. 1 of 2018) (Dora).

Basis for qualified opinion

Property, plant and equipment

3. I was unable to obtain sufficient appropriate audit evidence for the restatement of the corresponding amounts for property, plant and equipment in the financial statements as described in note 43 and 44 to the financial statements. The restatement was made to rectify a prior period misstatement, however, it could not be substantiated by supporting audit evidence. I was unable to confirm the restatement by alternative means. In addition, buildings were not assessed for indicators of impairment in accordance with GRAP 17 *property, plant and equipment*. I was unable to determine the impact on the net carrying amount of property, plant and equipment as it was impracticable to do so. Consequently, I was unable to determine whether any adjustment was necessary to the property, plant and equipment amount stated at R1,29 billion (2018: R1,31 billion) in the financial statements.

Investment property

4. The municipality incorrectly classified vacant land as property, plant and equipment contrary to the requirements of GRAP 16, *investment property*. The municipality had incorrectly accounted for vacant land as property plant and equipment. In addition, vacant land was identified which was not included under investment property. I was unable to determine the impact on the net carrying amount of Investment property as it was impracticable to do so. Consequently, Investment property stated at R4,40 million in the financial statements was misstated by an amount, which was impractical to determine.

Consumer debtors

5. I was unable to obtain sufficient appropriate audit evidence for the disclosure of the ageing of consumer debtors as the system of recording the ageing of consumer debtors could not be reconciled to the financial statements. The municipality was unable to provide evidence for the assessment of consumer debtors, individually or by category, for any indicators that these debtors may be impaired at reporting date. I could not confirm the ageing by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to

the consumer debtors stated at R141,92 million and the the allowance for impairment of consumer debtors stated at stated at R49,82 million as disclosed in note 10 to the financial statements.

Receivables from non-exchange transactions

6. I was unable to obtain sufficient appropriate audit evidence for the disclosure of the ageing of receivables from non-exchange transactions as the system of recording the ageing of receivables from non-exchange transactions could not be reconciled to the financial statements. The municipality was unable to provide evidence for the assessment of receivables from non-exchange transactions, individually or by category, for any indicators that these receivables may be impaired at reporting date. I could not confirm the ageing by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to receivables from non-exchange transactions with a gross carrying amount of R15,22 million and the allowance for impairment stated at R15,22 million as disclosed in note 8 to the financial statements.

Payables from exchange transactions

7. I was unable to obtain sufficient appropriate audit evidence for unclaimed deposits as the municipality could not provide listings for unclaimed deposits. The municipality did not have adequate systems of internal control for the recording of transactions and could not reconcile the transactions and events to the financial statements. I could not confirm payables from exchange transactions by alternative means. Consequently, I was unable to determine whether any adjustment was necessary to payables from exchange transactions stated at R61,70 million as disclosed in note 18 to the financial statements.

Service charges

8. The municipality had incorrectly accounted for revenue from service charges as required by GRAP 9, *Revenue from exchange transactions*, as tariffs actually charged were not aligned to those approved by the council. Consequently, service charges disclosed in note 21 to the financial statements was misstated by an amount which was impractical to determine. Additionally, there was an impact on consumer debtors.

Property rates

9. The municipality did not appropriately account for property rates as required by GRAP 23, *Revenue from non-exchange transactions*, as tariffs actually charged were not aligned to those approved by the council. Consequently, property rates disclosed in note 27 to the financial statements was misstated by an amount which was impractical to determine. Additionally, there was an impact on consumer debtors.

Statement of comparison of budget and actual amounts

10. GRAP 24, *Presentation of budget information in the financial statements* requires the presentation of the budget information including a statement of comparing the budget and actual amounts as well as reasons for variances. The budget amounts included in the statement of comparison between budget and actual amounts did not agree to the final approved budget of council. Consequently, the variances between the actual and budgeted amounts as disclosed in the statement of comparison of budget and actual amounts, does not reflect the actual variances.

Prior period errors

11. I was unable to obtain sufficient appropriate audit evidence for the prior period errors disclosed in note 43 and 44 to the financial statements, due to the status of the accounting records. I was unable to confirm these adjustments by alternative means. The municipality did not correctly disclose the nature of the error nor the adjustments made to correct prior period errors in

accordance with GRAP 3, *Accounting policies, estimates and errors*. Consequently, I was unable to determine whether any further adjustments to prior period errors disclosed in note 43 and 44 were necessary.

Statement of changes in net assets

12. I was unable to obtain sufficient appropriate audit evidence for the accumulated surplus disclosed in the financial statements as there were unreconciled differences between the statement of financial position and statement of changes in net assets. I was unable to confirm the accumulated surplus by alternative means. Consequently, I was unable to determine whether any adjustments to the accumulated surplus of R1,27 billion (2018: R1,27 billion) disclosed in the statement of financial position and the statement of changes in net assets was necessary.

Unauthorised expenditure

13. Section 125 of the MFMA requires disclosure of unauthorised expenditure incurred. During the 2016-2017 financial year, the municipality incurred unauthorised expenditure of R38,60 million due to overspending of individual votes within the budget which was not included in the opening balance of the 2017-2018 amount for unauthorised expenditure. This resulted in unauthorised expenditure being understated by R38,60 million (2018: R38,60 million). In addition, the municipality incorrectly accounted for overspending of the individual votes which resulted in an overstatement of unauthorised expenditure by R10,71 million. Consequently, unauthorised expenditure as per note 47 to the financial statements was understated by R27,89 million (2018: R38,60 million).

Irregular expenditure

14. Section 125 of the MFMA requires disclosure of irregular expenditure incurred. The municipality made payments of R10,75 million in contravention of supply chain management legislation which were not included in the irregular expenditure disclosed. Consequently, irregular expenditure as per note 49 to the financial statements was understated by R10,75 million. As the municipality did not quantify the full extent of the irregular expenditure, it was impracticable to determine the resultant understatement of irregular expenditure as disclosed in note 49 to the financial statements.

Context for the opinion

15. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this auditor's report.
16. I am independent of the municipality in accordance with sections 290 and 291 of the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants*, parts 1 and 3 of the International Ethics Standards Board for Accountants' *International Code of Ethics for Professional Accountants (including International Independence Standards)* (IESBA codes) and the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA codes.
17. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified opinion.

Emphasis of matter

18. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Material losses

19. As disclosed in note 21 to the financial statements, material electricity loss of R74,88 million was incurred due to technical losses.

Other matter

20. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited disclosure notes

21. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA in the financial statements. This disclosure requirement did not form part of the audit of the financial statements and, accordingly I do not express an opinion on it.

Responsibilities of the accounting officer for the financial statements

22. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the SA Standards of GRAP and the requirements of the MFMA and Dora and for such internal controls as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatements, whether due to fraud or error.
23. In preparing the financial statements, the accounting officer is responsible for assessing the uMngeni municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the financial statements

24. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
25. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

Report on the audit of the annual performance report

Introduction and scope

26. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for the selected key performance area presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
27. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the

completeness and appropriateness of the performance indicators/ measures included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.

28. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for the basic service delivery and infrastructure key performance area presented in the annual performance report of the municipality for the year ended 30 June 2019.
29. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
30. The material findings in respect of the usefulness and reliability of the selected key performance area are as follows:

Key performance area (KPA 2) – Basic service delivery and infrastructure

Various indicators

31. I was unable to obtain sufficient appropriate audit evidence to validate the existence of systems and processes that enable reliable reporting of actual service delivery against the indicators below. This was due to a lack of technical indicator descriptions and formal standard operating procedures. I was unable to validate the existence of systems and processes by alternative means.

Indicator description	Reported achievement
Square meters of potholes fixed	6810 m ²
Percentage of households with access to free basic electricity	43%
Households receiving refuse removal weekly	80%
Maintenance of municipal open spaces	Quarterly

Percentage of households with access to free basic electricity

32. I was unable to obtain sufficient appropriate audit evidence to support the measures taken to improve performance against target 80% as reported in the annual performance report. This was due to limitations placed on the scope of my work. I was unable to confirm the reported measures taken by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported measures taken to improve performance.

Other matters

33. I draw attention to the matters below.

Achievement of planned targets

34. The annual performance report on pages xx to xx sets out information on the achievement of planned targets for the year and explanations provided for the under and over-achievement of a significant number of targets. This information should be considered in the context of the material findings on the usefulness and reliability of the reported performance information in paragraph 31 - 32 of this report.

Adjustment of material misstatements

35. I identified material misstatements in the annual performance report submitted for auditing. These material misstatements were on the reported performance information of basic service delivery and infrastructure. As management subsequently corrected only some of the misstatements, I raised material findings on the usefulness and reliability of the reported performance information. Those that were not corrected are reported above.

Report on audit of compliance with legislation

Introduction and scope

36. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.

37. The material findings on compliance with specific matters in key legislation are as follows:

Annual financial statements

38. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements of non-current assets, current assets, liabilities, revenue and disclosure items identified by the auditors in the submitted financial statements were subsequently corrected and the supporting records were provided subsequently, but the uncorrected material misstatements and supporting records that could not be provided resulted in the financial statements receiving a qualified audit opinion.

Liability Management

39. An effective system of internal control for liabilities was not in place, as required by section 63(2)(c) of the MFMA.

Expenditure Management

40. Money owed by the municipality was not always paid within 30 days, as required by section 65(2)(e) of the MFMA.

41. Reasonable steps were not taken to prevent irregular expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the irregular expenditure incurred as indicated in the basis for qualification paragraph. The majority of the disclosed irregular expenditure was caused by non-compliance with supply chain management legislation.
42. Reasonable steps were not taken to prevent unauthorised expenditure, as required by section 62(1)(d) of the MFMA. The expenditure disclosed does not reflect the full extent of the unauthorised expenditure incurred as indicated in the basis for qualification paragraph. The majority of the disclosed unauthorised expenditure was caused by overspending of the vote.

Human resource management

43. I was unable to obtain sufficient appropriate audit evidence that senior managers signed performance agreements within the prescribed period, as required by section 57(2)(a) of the Local Government: Municipal Systems Act, 2000 (Act No. 32 of 2000) (MSA).

Procurement and contract management

44. Sufficient appropriate audit evidence could not be obtained that all contracts were awarded in accordance with the legislative requirements as certain procurement documents were not submitted for audit.
45. Sufficient appropriate audit evidence could not be obtained that goods and services of a transaction value above R200 000 were procured by inviting competitive bids and that deviations approved by the accounting officer were only if it was impractical to invite competitive bids, as required by the municipal supply chain management (MSCM) regulation 19(a) and 36(1).
46. Bid specifications for some of the tenders were drafted in a biased manner and did not allow all potential suppliers to offer their goods or services, in contravention of the MSCM regulation 27(2)(a).
47. The performance of contractors or providers was not monitored on a monthly basis, as required by section 116(2)(b) of the MFMA.
48. The contract performance and monitoring measures and methods were not sufficient to ensure effective contract management, as required by section 116(2)(c) of the MFMA.
49. Awards were made to providers whose directors were in the service of other state institutions, in contravention of MFMA 112(j) and MSCM regulation 44.

Consequences management

50. Unauthorised expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) of the MFMA.
51. Authorisation of unauthorised expenditure amounting to R36,12 million was not done through an adjustment budget, as required by section 32(2)(a)(i) of the MFMA.
52. Irregular expenditure incurred by the municipality were not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.
53. The condonation of irregular expenditure amounting to R1,89 million was not approved by the appropriate relevant authority, as required by sections 1 and 170 of the MFMA.

54. Fruitless and wasteful expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

Other information

55. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report and the selected key performance area presented in the annual performance report that have been specifically reported on in this auditor's report.
56. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
57. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected key performance area presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
58. I did not receive the other information prior to the date of this auditor's report. After I receive and read this information, and if I conclude that there is a material misstatement, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

Internal control deficiencies

59. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance thereon. The matters reported below are limited to the significant internal control deficiencies that resulted in the basis for the qualified opinion, the findings on the annual performance report and the findings on compliance with legislation included in this report.
60. Leadership did not adequately monitor management action plans to address prior year audit findings regarding financial and performance reporting and compliance as well as the related internal controls.
61. Sustainable systems and processes were not maintained for the recording, reconciling and reporting on certain financial statement and performance reporting matters. This resulted in the municipality not being able to provide accurate and reliable financial and performance reports. The inability to comply with certain legislation without implementation of the consequence management processes reflects negatively on management's commitment towards a clean administration.

Other reports

62. I draw attention to the following engagements conducted by various parties that had, or could have, an impact on the matters reported in the municipality's financial statements, reported performance information, compliance with applicable legislation and other related matters. These reports did not form part of my opinion on the financial statements or my findings on the reported performance information or compliance with legislation.

Investigations

63. The forensic audit unit of the provincial department of Cooperative governance and traditional affairs are investigating various allegations of maladministration, fraud and corruption covering the period 2015-2016. These investigations were still in progress at the date of this report.

Auditor-General

Pietermaritzburg

18 December 2019



AUDITOR-GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – Auditor-general's responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected key performance area and on the municipality's compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in the auditor's report, I also:
 - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
 - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality's internal control.
 - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer.
 - conclude on the appropriateness of the accounting officer's use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the uMngeni Municipality's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of the auditor's report. However, future events or conditions may cause a municipality to cease to continue as a going concern.
 - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Communication with those charged with governance

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and where applicable, related safeguards.